Financial Market Weekly

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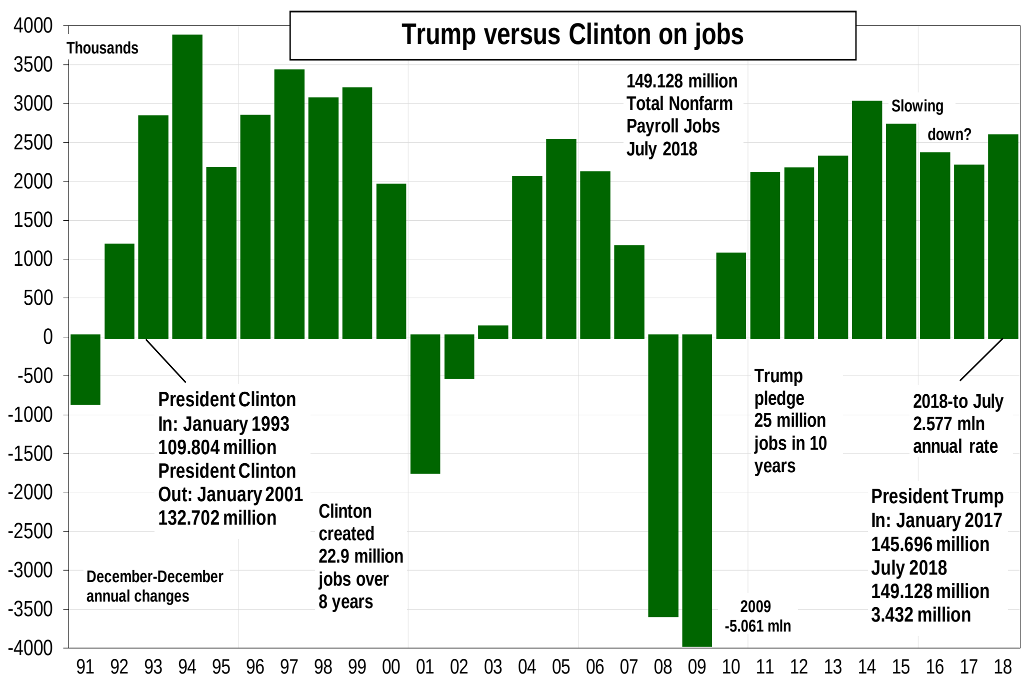
3 AUGUST 2018

PLENTY OF JOBS FOR AMERICAN WORKERS FOR NOW



Not sure who the trade wars are for. There are only 12.751 million employed in U.S. manufacturing. Maybe they can help win elections. 596 thousand manufacturing workers were unemployed in July out of a total 128 million votes cast for Clinton and Trump in November 2016. Guess the trade war could help these workers keep their jobs, and stop China, we mean, stop American companies from shifting their production offshore to increase their profits. Companies try to make a profit, that's called capitalism in America. The U.S. trade war continues, "we want free trade without barriers," and U.S. trade rep Lighthizer got an earful from Congress last week, from both sides of the aisle, on how tariffs were not the answer. More than trade, Lighthizer seems convinced that these actions are needed to combat unfair Chinese intellectual property practices. These include forced technology transfer, noneconomic licensing practices, state-funded strategic acquisitions of U.S. technology and cyber theft. With Lighthizer's testimony, it can be seen this trade war might go on for a while. On the defensive near the end, he shouted, "If your conclusion is that China taking over all our technology and the future of our children is a stupid fight, then you are right. We should just capitulate." Our conclusion is this sounds like it could be a long fight, but then again, the President could overrule this of course and settle up with China like he did with the EU before the midterm elections.

War, huh What is it good for 2017 Trade deficit in goods	
$ billions	
China	375.5
EU	151.3
Germany	63.6
Mexico	70.9
Canada	17.0
And the rest	180.7

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Here are our more colorful comments made in the seconds following the jobs report news release. Real-time analysis brought to you while standing in line at the airport to board a plane no less. The bond market never wavered, we mean never traded, on the news. Why bother? Odds of a September Fed rate hike were 92% Thursday night, and 92% again on Friday after the jobs report news.

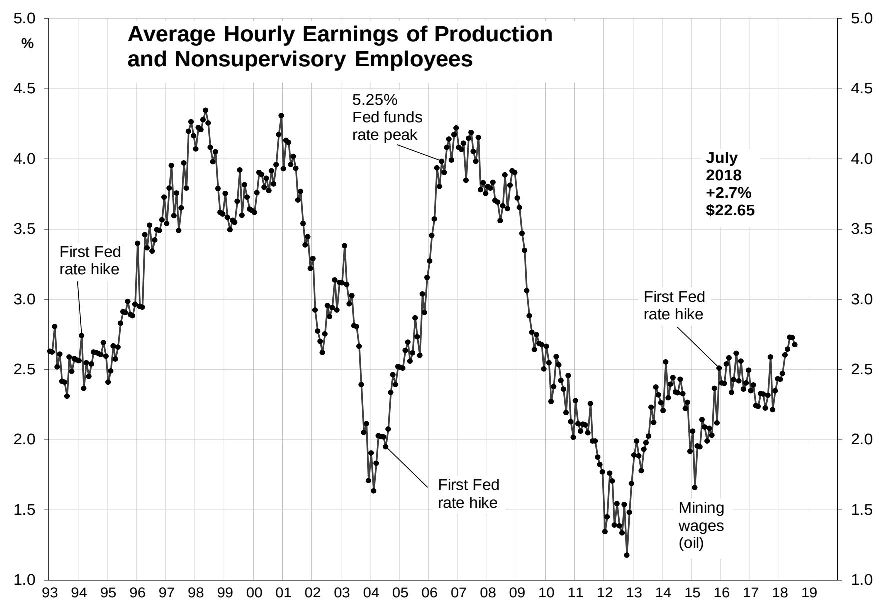
157 thousand jobs is a distinct slowdown from the numbers the economy has been putting up on the board and for the blame for this look no further than the U.S. saber rattling over China and the unfair terms of trade. Uncertainty from the trade war finally comes home to roost. Time will tell if this is a one-month anomaly or whether this is the start of something darker like a Trump recession. You can give business and consumers all the money in the world but if they press the pause button on spending due to trade war uncertainty this economy is going nowhere.

Payroll jobs in year ten following the recession

Dec. 2017 Totals millions		July 18	June 18	May 18	7 months Dec 17 to July 18	12 months Dec 16 to Dec 17
147.625	Nonfarm Payroll Employment	157	248	268	1503	2188
125.294	Total Private (ex-Govt)	170	234	260	1500	2163
20.328	Goods-producing	52	52	56	400	509
0.648	Mining	-4	7	3	38	53
12.558	Manufacturing	37	33	23	193	207
0.956	Motor Vehicles & parts	6	11	-7	16	4
7.072	Construction	19	13	30	170	250
104.966	Private Service-providing	118	182	204	1100	1654
27.593	**Trade, transportation, utilities**	15	7	52	208	169
15.861	Retail stores	7	-20	29	83	-29
3.122	General Merchandise	14	-21	13	13	-51
3.100	Food & Beverage stores	8	-9	2	-1	3
5.236	Transportation/warehousing	-1	19	16	89	135
1.460	Truck transport	4	2	3	21	9
0.708	Couriers/messengers	8	5	5	42	39
1.011	Warehousing and storage	4	2	8	26	43
0.554	Utilities	-3	0	-2	-4	-3
2.776	**Information**	0	1	3	-4	-36
8.511	**Financial**	-5	10	12	57	142
2.664	Insurance	-7	2	3	6	38
2.220	Real Estate	4	4	5	28	60
1.323	Commercial Banking	-3	3	0	1	5
0.951	Securities/investments	0	1	3	14	20
20.677	**Professional/business**	51	43	49	342	458
2.998	Temp help services	28	-8	-1	55	96
2.308	Management of companies	1	8	6	24	38
1.456	Architectural/engineering	5	7	4	26	45
2.065	Computer systems/services	8	6	8	50	47
1.137	Legal services	-2	3	0	0	5
0.982	Accounting/bookkeeping	3	1	11	26	-3
23.380	**Education and health**	22	69	42	282	458
5.124	Hospitals	7	10	4	58	70
3.696	Educational services	-11	32	6	35	77
16.207	**Leisure and hospitality**	40	34	35	164	354
2.014	Hotel/motels	8	6	5	29	31
11.844	Eating & drinking places	26	24	28	128	261
22.331	Government	-13	14	8	3	25
2.182	Federal ex-Post Office	1	2	2	8	-12
5.129	State government	5	7	8	-3	-16
2.462	State Govt Education	4	4	8	-5	-1
14.407	Local government	-20	6	-1	5	56
7.938	Local Govt Education	-14	8	-4	-4	28

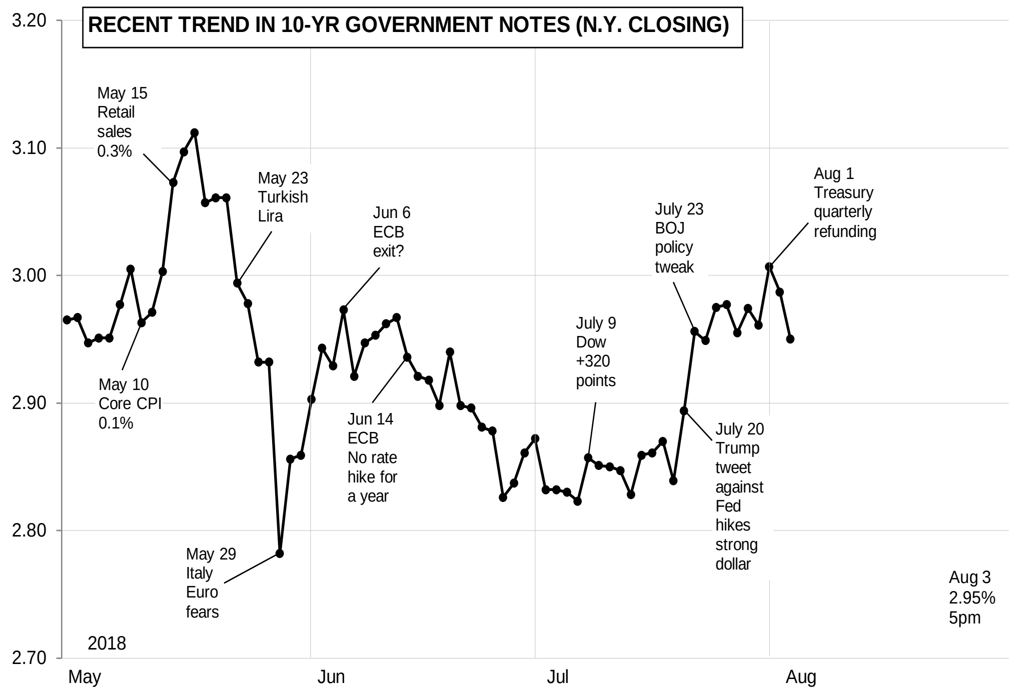
America first means jobs first and wages second. When are corporations flush with cash from massive tax cuts going to give their employees a break?

Trump administration policies helped create jobs, but what happens when everyone has a job and the economy is at full employment? How about a raise for workers and giving them a bigger share of the pie. That's what voters want to know. This long economic expansion has left many behind and Washington doesn't seem to have any plan to see that workers see more of the fruits of their labor.



MARKETS OUTLOOK

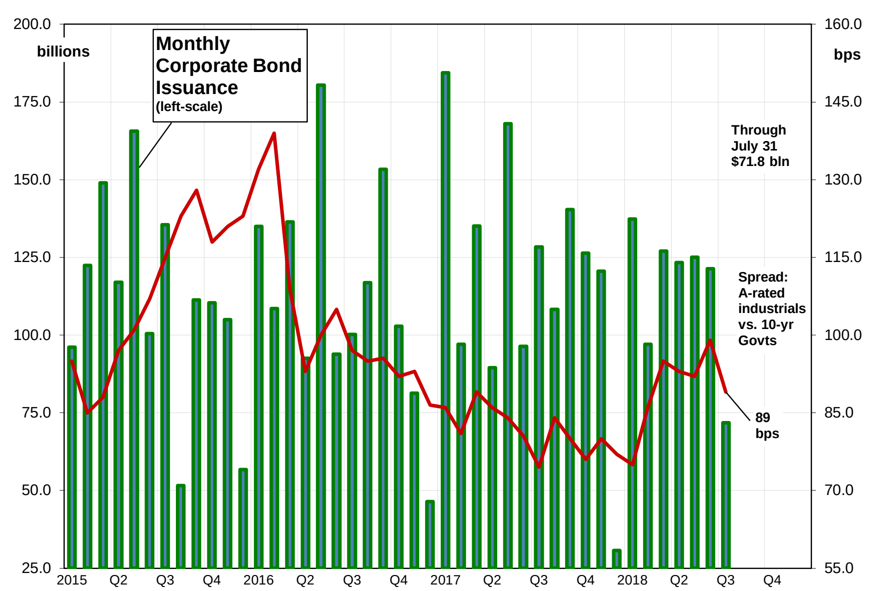
	29-Jun 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
30-Yr Treasury	2.99	3.10	3.20	3.35	3.45	3.60	3.60	3.75	3.85	3.80	3.95
10-Yr Note	2.86	2.90	3.00	3.20	3.30	3.50	3.50	3.70	3.80	3.80	3.95
5-Yr Note	2.74	2.70	2.90	3.10	3.20	3.45	3.45	3.65	3.75	3.80	3.95
2-Yr Note	2.53	2.55	2.80	3.00	3.15	3.40	3.40	3.60	3.75	3.80	4.00
3-month Libor	2.34	2.55	2.80	2.95	3.20	3.45	3.45	3.70	3.95	3.95	4.20
Fed Funds Rate	2.00	2.25	2.50	2.75	3.00	3.25	3.25	3.50	3.75	3.75	4.00
2s/10s spread	33	35	20	20	15	10	10	10	5	0	(5)



Bond yield 2.93% lows were on the BOJ announcement after midnight Monday night in New York that was less policy tweak friendly. The 3.01% highs were on the supply is coming, supply is coming, Treasury August quarterly refunding announcement Wednesday at 830am New York. 10-year Treasury yields closed the week at 2.95%. Not much of a reaction to the jobs report on Friday maybe blame it on the summer time, although bonds definitely rallied from 2.98% at 830am EDT. Nothing at all happened in the U.S. government bond market after 11am EDT. Next week Treasury sells $34 billion 3-years ($3 billion more than last quarter), $26 billion 10-years ($1 billion more), $18 billion 30-years ($1 billion more). We'll see if supply kicks up yields.

CORPORATE BONDS: SOUTHERN CAL EDISON, RYDER, PG&E, NY LIFE

Corporate offerings were $15.5 billion in the August 3 week versus $15.7 billion in the July 27 week. On Monday, Norfolk Southern sold $1.5 billion 7s/10s/30s/100s. It priced a $400 million 3.8% 10-yr (m-w +15bp) at 85 bps (Baa1/BBB+). The freight railroad will use a substantial part of the proceeds to repurchase outstanding shares. Corporate bond yields (10-yr Industrials rated A2) were 87 bps above 10-yr Treasuries this week versus 91 bps last Friday.



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FEDERAL RESERVE POLICY

Selected Fed assets and liabilities					Sep 10
Fed H.4.1 statistical release					2008**
billions, Wednesday data	1-Aug	25-Jul	18-Jul	11-Jul	pre-LEH
Factors adding reserves					
U.S. Treasury securities	2336.876	2359.893	2359.766	2360.504	479.782
Federal agency debt securities	2.409	2.409	2.409	2.409	0.000
Mortgage-backed securities	1709.544	1709.528	1722.291	1721.275	0.000
Primary credit (Discount Window)	0.003	0.002	0.013	0.006	23.455
Term auction credit (TAF auctions)	0.000	0.000	0.000	0.000	150.000
Asset-backed TALF	0.000	0.000	0.000	0.000	
Maiden Lane (Bear)	1.716	1.715	1.711	1.711	29.287
Maiden Lane II (AIG)	0.000	0.000	0.000	0.000	0.000
Maiden Lane III (AIG)	0.000	0.000	0.000	0.000	
Central bank liquidity swaps	0.100	0.122	0.091	0.096	62.000
Federal Reserve Assets	4303.0	4325.3	4339.2	4338.8	961.7
3-month Libor %	2.35	2.34	2.35	2.34	2.82
Factors draining reserves					
Currency in circulation	1669.707	1668.294	1668.409	1672.158	834.477
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
Reverse repurchases w/others	0.795	0.720	6.021	1.230	0.000
Reserve Balances (Net Liquidity)	1966.432	1947.287	1949.944	1980.868	24.964
Treasuries within 15 days	23.069	30.302	30.302	1.133	14.955
Treasuries 16 to 90 days	39.939	63.008	63.008	93.310	31.549
Treasuries 91 days to 1 year	329.380	310.069	310.067	307.881	69.272
Treasuries over 1-yr to 5 years	1028.048	1040.552	1040.534	1042.558	170.807
Treasuries over 5-yrs to 10 years	296.622	296.199	296.154	296.037	91.863
Treasuries over 10-years	619.818	619.762	619.701	619.586	101.337

**September 10, 2008 is pre-Lehman bankruptcy of 9-15-08

The Fed met July 31-August 1 to consider its monetary policy. No policy change was expected. Not saying anything at all about what they might do in the future, changing about three words in the press statement, was not expected. Not sure what Powell would have said at a press conference today. We will know next year when he holds a press conference after every "live" Fed meeting, all eight of them. Meanwhile, the odds of a Fed rate hike to 2.25% (is that all) on September 26 are 92%.

Maybe the Committee is lying low to stave off some of those critical tweets. The President isn't thrilled with rate hikes, but the Fed left in the words saying policy remains accommodative, so you can bet your bottom dollar more rate hikes are coming. At least one anyway in September.

The million dollar question is where exactly is normal. Trump's economics team will prepare him for the inevitable--that rates are going up to normal. The June FOMC forecasts are split with four saying normal is 2.75% and five saying 3.0% is normal. Not too many more rate hikes before the White House really starts to squirm as no one there wants a restrictive monetary policy that slows economic growth. Rates above normal are "tightening" that takes away oxygen from the economy.

They remained cool today, but the economy at full employment is heating up, so more rate hikes are on the way. Trump's admonishment and that of his economics team to proceed cautiously will be taken under advisement. But no one at the Federal Reserve believes interest rates below 2.75 to 3 percent normal is good for the sustainability of the expansion at this stage of the business cycle.

August 1 Fed Press Statement

Information received since the Federal Open Market Committee met in June indicates that the labor market has continued to strengthen and that economic activity has been rising at a strong rate. Job gains have been strong, on average, in recent months, and the unemployment rate has stayed low. Household spending and business fixed investment have grown strongly. On a 12-month basis, both overall inflation and inflation for items other than food and energy remain near 2 percent. Indicators of longer-term inflation expectations are little changed, on balance.

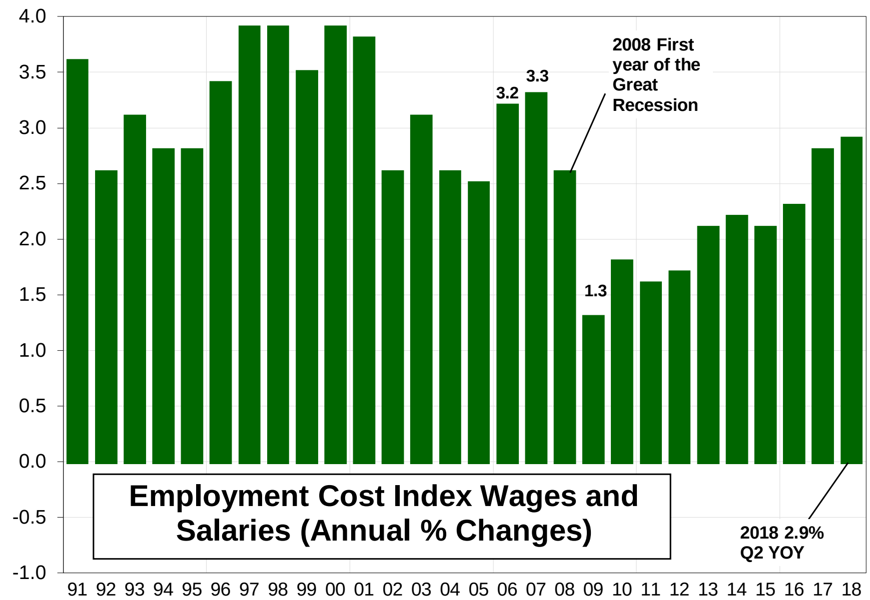
June 13 Fed Press Statement

Information received since the Federal Open Market Committee met in May indicates that the labor market has continued to strengthen and that economic activity has been rising at a solid rate. Job gains have been strong, on average, in recent months, and the unemployment rate has declined. Recent data suggest that growth of household spending has picked up, while business fixed investment has continued to grow strongly. On a 12-month basis, both overall inflation and inflation for items other than food and energy have moved close to 2 percent. Indicators of longer-term inflation expectations are little changed, on balance.

OTHER ECONOMIC NEWS THIS WEEK

Core PCE inflation back down a tick to 1.9%, and no stinking wages for workers (Tuesday)

Breaking economy news. Personal Income report for June and the Employment Cost index for Q2. We already know that consumer spending was strong as all get out in the second quarter in Friday's GDP report. Real consumer spending of 4.0%, and now with data for June, consumption is up 1.2% already in Q3 2018 based on phantom momentum purchases even if workers don't spend another dime in July, August, September.



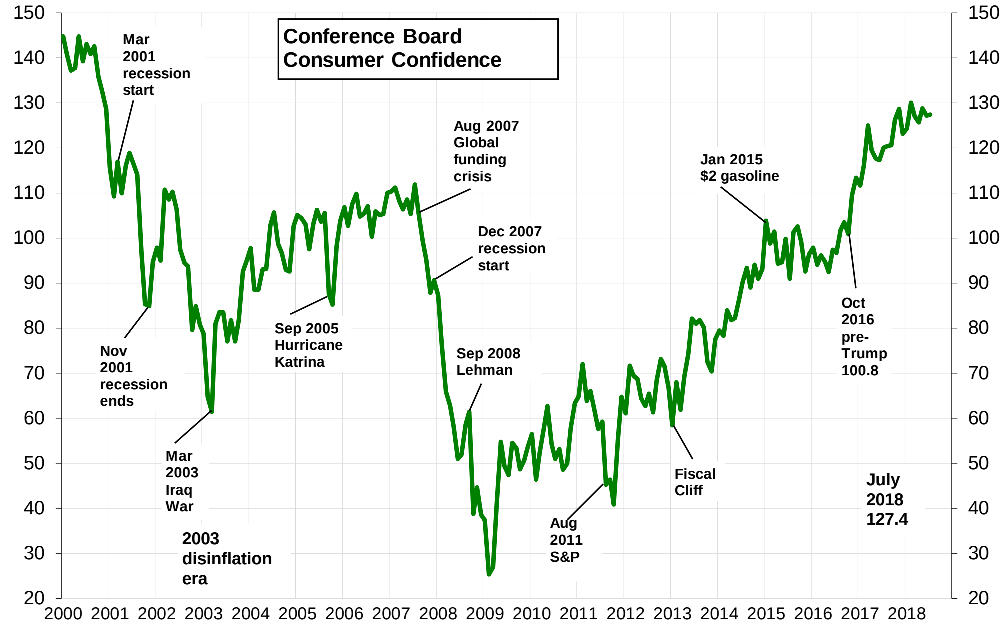
Speaking of workers. Their wages stink last quarter in the Employment Cost index report also out at 830am this morning. Wages up just 0.5% in the second quarter. Got more benefits though, up 0.9%. More healthcare coverage for your cats and dogs. Okay, maybe we exaggerated a little. Wages don't stink exactly. Private industry wages up just 0.6% seasonally adjusted in the second quarter, but in the 12 months ending Q2 2018 wages are the same, up 2.9% which isn't that far off the best workers have seen since right before the recession hit over a decade ago. (This wage measure never went that high in the housing bubble years.)

Inflation in the personal income report is on target, at least the headline number is, rising 0.1% in June and up 2.2% the last year. Add real neutral rates which some models say are zero, others say about 1%, to 2.2% inflation and that is where the neutral Fed funds rate is: 2.25 to 3.25 percent.

Net, net, the economy ran all out in the second quarter with very strong purchases by consumers of 4.0%, but the increase in buying and selling did not lead to overheating as wages are modest in the second quarter and core consumer inflation is still slightly short of the Fed's 2.0% target. The Fed can continue on its path of gradual rate hikes for now, but unless inflation pressures start to build, they may have to scale back their forecasts of how high interest rates actually need to go in this business cycle. Especially when the President of the United States is not in favor of any rate hikes at all. Stay tuned. Story developing.

Consumer confidence hasn't cracked yet (Tuesday)

Breaking economy news. Consumer confidence up a tick to 127.4 in July from 127.1 May. May was revised up from 126.4 a month ago. What trade war the consumer is saying, it's summer time and the living is easy. Especially if you are forever young. Consumer confidence jumped over ten points to 137.2 in July for those under 35 years old. The overall level of confidence for those 25 to 54 years old plummeted nearly ten points, falling from 132.0 in June to 123.5 in June. Maybe this key working-man demographic is struggling to figure out [what their tax bill is next year](), we know we are. The older generation are also more likely to read the worrying news headlines about the business outlook unlike the Millennials who are looking at god knows what on their phones.



The outlook isn't all rosy. Consumer spending is strong today, but buying plans for many major appliances are flat to down over the next six months: washing machines, TVs, vacuum cleaners, clothes dryers, air conditioners, and carpets.

Net, net, consumers are confident because employment opportunities have never been this plentiful with help wanted signs plastered in every window on Main Street. You have to go back over two recessions ago to have people saying the labor market is this good. The strong labor market trumps the negative trade war headlines when it comes to consumer sentiment out there in the country for most Americans. The consumer's attitude is that there is nothing to worry about and those storm clouds that economists see on the horizon don't mean it will rain on them.

This economy isn't perfect, but it sure is pretty darn close. It is a myth that Americans are worried their wages are not keeping up with inflation. The consumer confidence numbers simply don't show it. Republicans and Democrats don't agree on much, but one thing that they can't argue over is how the confidence of consumers has soared since President Trump was elected in November 2016. The consumer confidence index was 100.8 in October 2016 and remains over 25 points higher at 127.4 in July 2018. The economy starts its tenth year of expansion from the recession this month, and the economy is going to break the full ten-year expansion record from the Clinton years if consumer confidence remains this bright. Stay tuned. Story developing. Consumer confidence remains stronger than you think. Bet on it.

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